

factor range are only meeting their obligations under their interconnection agreements and in accordance with good utility practice, and in doing so, incur no additional costs or de minimis costs beyond that which they already incur to provide real power.”²

The rationale behind this statement appears to be that if a generator is already required to provide a service, then it incurs no additional costs. A requirement to provide a service does not negate the fact that costs are incurred, as demonstrated by the multiple settlements reached for payment of this service. Moreover, removing compensation for a needed ancillary service stands in contrast to the core principle of an efficient market that prices should signal the value of a good or service. For example, in a report to the Commission on electricity market design, PJM Interconnection explains that “[e]fficient price signals additionally ensure resources are compensated according to the value that they provide to the system in any given operating interval.”³ Comments filed by ACORE, the American Clean Power Association and the Solar Energy Industries Association on market design put forth several recommendations for energy and ancillary service market improvements, including to “allow all generation resources capable of providing a product or service to do so and be fairly compensated.”⁴ Similarly, in a presentation to the Midcontinent Independent System Operator Resource Adequacy Committee, the Brattle Group explains that “[s]tronger energy and ancillary service market signals provide the most granular signals for resources to be available when and where they are most needed.”⁵

² Proposed Rule at P 8.

³ *Report of PJM Interconnection, L.L.C.*, Modernizing Wholesale Electricity Market Design, Docket No. AD21-10-000, (Oct. 18, 2022) at 21, <https://pjm.com/-/media/documents/ferc/filings/2022/20221018-ad21-10-000.ashx>.

⁴ *Comments Of Clean Energy Associations*, Modernizing Wholesale Electricity Market Design, Docket No. AD21-10-000 (Jan. 18, 2023) at 6, <https://acore.org/resources/clean-energy-associations-comments-on-energy-ancillary-service-markets/>.

⁵ Sam Newell, Kathleen Spees, Andrew Levitt, Daniel Shen, John Higham, The Brattle Group, *MISO Reliability Attributes “Solution Space”: Initial Assessment of Promising Solutions to Meet Identified*

Removing all compensation within the standard power factor range not only stands in direct contrast to efficient market design but would be discriminatory. Reactive power provides the same benefit to the system regardless of who owns the capacitor banks. But transmission owners' affiliates are often granted cost recovery plus a return on the asset, while independent generators would now receive no compensation for the provision of reactive power.

III. REMOVAL OF THIS PAYMENT WOULD BE DISRUPTIVE

According to ACORE members who own or operate generation, costs are incurred in the provision of reactive power within the standard power factor range. Many generation owners forecast compensation for the cost of this service, with such forecasts serving as the basis for financing arrangements and power purchase agreements.⁶ Removing such compensation would be disruptive because it would eliminate an expected revenue stream after these deals are signed and sellers have minimal recourse to renegotiate the terms.

The loss of reactive power compensation would adversely impact projects that are already facing other challenges, such as siting and permitting barriers, supply chain disruptions, and lengthy interconnection queues.⁷ Given these challenges and the forecast for a dramatic

Priority Attribute Needs, (October 4, 2023) at Slide 5, <https://www.brattle.com/wp-content/uploads/2024/01/MISO-Reliability-Attributes-Solution-Space.pdf>.

⁶ Also see *Comments of the Solar Energy Industries Association, the American Clean Power Association, Earthjustice, and the Natural Resources Defense Council* in this Docket (Feb. 22, 2022) at 11.

⁷ See Abraham Silverman, Dr. Zachary A. Wendling, Kavyaa Rizal, and Devan Samant, Columbia University Center on Global Energy Policy, *Outlook for Pending Generation in the PJM Interconnection Queue* (May 2024), <https://www.energypolicy.columbia.edu/publications/outlook-for-pending-generation-in-the-pjm-interconnection-queue/#:~:text=The%20country's%20largest%20grid%20operator,of%20coming%20online%20before%202030>.

increase in future demand levels,⁸ now is not the time to impede generation project development or present obstacles to continued project operation.

IV. RECOMMENDATIONS

Given the need for efficient price signals and avoid disruption to the industry, ACORE recommends that instead of removing all compensation within the standard power factor range, a cost-based, technology-neutral rate be established for reactive power, with a focus on reducing the administrative burdens of the AEP methodology.

If the Commission does not reverse its proposed removal of the reactive power compensation rate within the standard power factor range, then establishing a five to ten-year transition period would be essential. This transition can either fully defer the start date for this change in the Interconnection Agreements or ramp down the compensation gradually over a five or ten-year time frame.

ACORE appreciates the opportunity to submit these comments and recommendations.

Respectfully submitted,

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⁸ T. Bruce Tsuchida, Long Lam, Peter Fox-Penner, Akhilesh Ramakrishnan, Sylvia Tang, Adam Bigelow, Ethan Snyder, The Brattle Group, *Electricity Demand Growth and Forecasting in a Time of Change* (May 2024) at 2, finding that “the combined speed and magnitude of the new growth drivers point towards a sustained period of very high electric demand growth for many parts of the country,” <https://www.brattle.com/wp-content/uploads/2024/05/Electricity-Demand-Growth-and-Forecasting-in-a-Time-of-Change-1.pdf>.